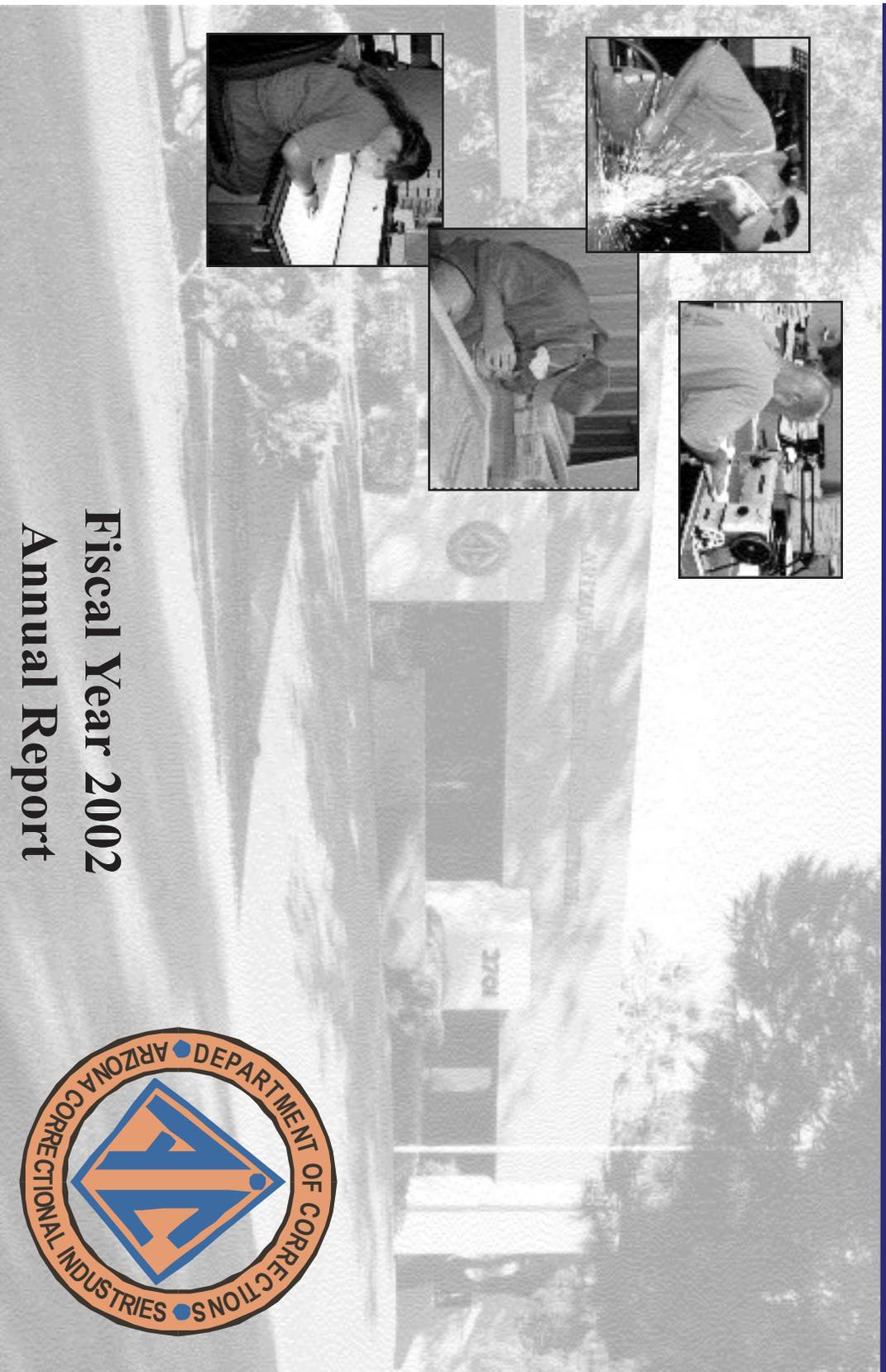


ARIZONA CORRECTIONAL INDUSTRIES



**Fiscal Year 2002
Annual Report**



MISSION

- To make available within the state correctional institutions opportunities for employment of inmates in jobs which combat idleness and develop good working habits.
- To provide training and work experience that will assist inmates in eventually securing and holding gainful employment outside the correctional institution.
- To reduce the cost to society of maintaining an inmate through the sale of inmate-produced goods and services and by requiring and enabling inmates to pay some portion of their room and board costs.
- To require and enable inmates to make restitution to the victims of their offenses, so as to assist the inmates in accepting responsibility for the consequences of their acts.
- To require and enable inmates to provide assistance to their dependents, thus tending to strengthen family ties.
- To require and enable inmates to accumulate savings for their eventual return to the community.

VISION

ACI's compelling vision is to maintain its momentum of successfully accomplishing legislative and departmental objectives while integrating and balancing strategic plans with the necessity to be a purely "customer-driven" organization that serves all of its customers as a quantifiable value-added partner.



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A DIVISION OF ARIZONA DEPARTMENT OF CORRECTIONS

ARIZONA CORRECTIONAL INDUSTRIES

Terry L. Stewart, Director
Arizona Department of Corrections
1601 West Jefferson
Phoenix, Arizona 85007

Dear Director Stewart:

On behalf of the staff of Arizona Correctional Industries (ACI), I am pleased to present the Annual Report for Arizona Correctional Industries for Fiscal Year 2002.

Nothing in our country was untouched by the events of September 11, 2001. This tragedy has sparked introspection and contemplation on a national level, leading us to rediscover who we are as Americans and to clarify who we are as individuals, as well as businesses. It is this reflective, back-to-basics tenor that inspired ACI to devote this year's FOCUS section to ACI Owned-and-Operated Prison Industry Enterprises. At the heart of ACI operations, these work assignments offer inmates a range of opportunities we consider a First Step, a Stepping Stone, and a Cornerstone of success during incarceration and upon release, through the progressive acquisition of marketable job skills, desirable work habits, and self-esteem.

ACI confirmed its resiliency this year by successfully confronting a variety of financial challenges. Arizona's economy was not immune to national trends, negatively affecting both the number and size of transactions with ACI's customers. The moratorium placed on State spending by mid-year impacted business with ACI's largest customer - the Arizona Department of Corrections.

Within the Department of Corrections, ACI assumed responsibility for the cost of all Correctional Officers assigned to ACI operations and suffered a significant loss in the garment factory due to changes in the clothing allowance for inmates. Despite these challenges, ACI sustained debt-free operations, contributed \$1 million to the State General Fund and \$1 million to the Corrections Fund, and realized a profit for the fiscal year.

Terry L. Stewart, Director
Page 2

In the annual economic impact assessment of ACI, the Arizona State University Center for Business Research reports that ACI operations contributed directly and indirectly to the economic prosperity of the State of Arizona through expenditures for materials, supplies, and outside services totaling nearly \$12.8 million. Staff salaries alone amounted to \$3.7 million for the year, creating more than \$2.9 million in demand for goods and services. ACI expenditures also resulted in further indirect economic impact, including the creation of 336 new jobs and a corresponding \$14.7 million for additional goods and services. In addition, as previously noted, ACI contributed \$1 million of its earnings to the State General Fund for the fourth year in a row. This year ACI also contributed \$1 million to the Corrections Fund.

In the year to come, ACI plans to continue to strengthen Owned-and-Operated Prison Industry Enterprises, while also exploiting opportunities for new partnerships with public and private sector businesses. In particular, ACI will focus on bringing jobs to the United States by forming partnerships with private companies that have previously looked off-shore to meet their labor resource requirements.

Sincerely,

John J. Spearman
Assistant Director

INTRODUCTION

Arizona Correctional Industries' (ACI's) enabling statute serves as the core of ACI's mission and the foundation for its activities. In pursuit of its goals, ACI has also adopted four philosophical and operational ideals that serve as benchmarks for progress:

- 1) Statewide work opportunities reflecting industry diversity;
- 2) Supportive, collaborative partnerships with prisons that directly contribute to achieving the mission of the Arizona Department of Corrections;
- 3) Customer-driven attention to quality, timeliness, and responsiveness; and
- 4) Conscientious and responsible governmental entity within the State of Arizona, contributing to the economic prosperity of the State and supporting Arizona businesses.

Clearly focused on its role within the Arizona Department of Corrections and the larger social and economic contexts in which it operates —

ACI GETS RESULTS!



ACI GETS RESULTS FOR:

INMATES

- Marketable job skills
- Sound work ethic and work habits
- Self-confidence and pride
- Savings
- Family support
- Improved chance of success upon release.

INSTITUTIONS

- Facilitates inmate management
- Combats inmate idleness
- Reduces disruptive behavior
- Contributes to a safe and secure environment
- Leads to increased compliance with institutional requirements
- Provides rewards for successful attitudes and behaviors.

CUSTOMERS

- Efficient use of taxpayer dollars for tax-supported entities
- Quality products and services
- Professional installation and customer service/support
- Contracts to provide consistent, reliable, and qualified inmate labor.

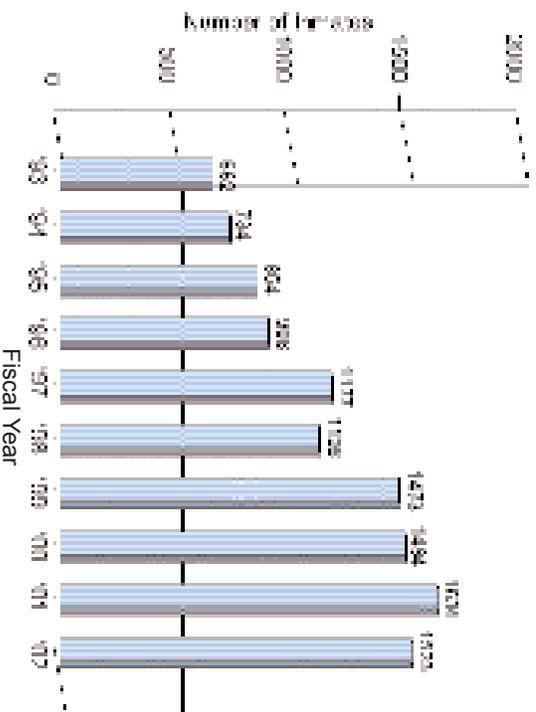
THE STATE OF ARIZONA

- No financial support from taxpayers
- Deductions/contributions from inmate wages for taxes, cost of incarceration, victim's compensation, restitution, and other financial obligations, including family support
- Significant contributions to the economic development and prosperity of the State
- Returning law-abiding, productive citizens to the community.

HISTORICAL PROFILE

INMATES EMPLOYED

(Monthly Average)



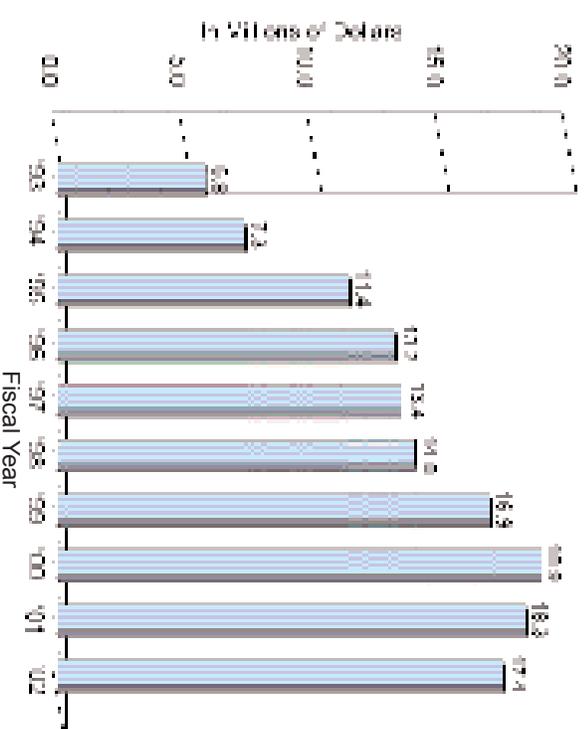
COUNTING INMATE WORKERS

Throughout this report, "Inmates Employed" reflects the actual number of inmates that worked for ACI during the year, regardless of the number of hours per day or the duration of the assignment. By capturing information about all positions, as well as turnover, this method of calculation enables ACI to report the exact number of inmates who have had the opportunity to benefit from ACI work programs.

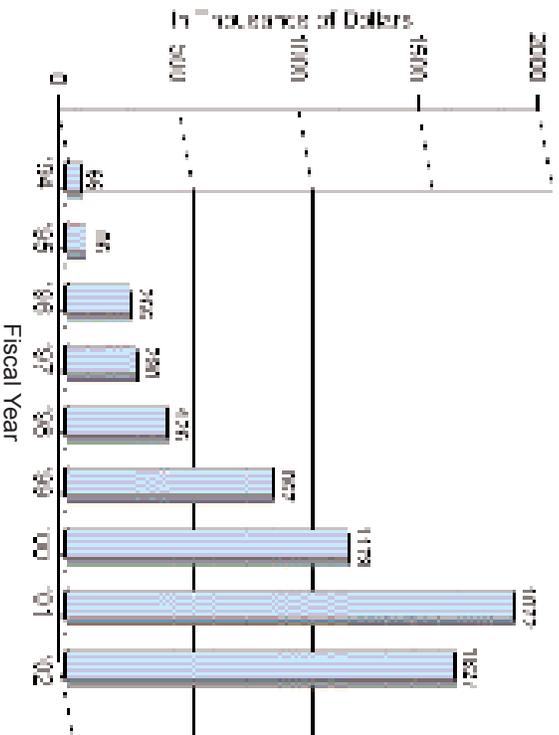
In addition, this year ACI began calculating the Full-Time Equivalent (FTE) for inmate workers based on a 40-hour work week. This figure allows the Department of Corrections to maintain work program information using a standardized measurement.



HISTORY OF REVENUES



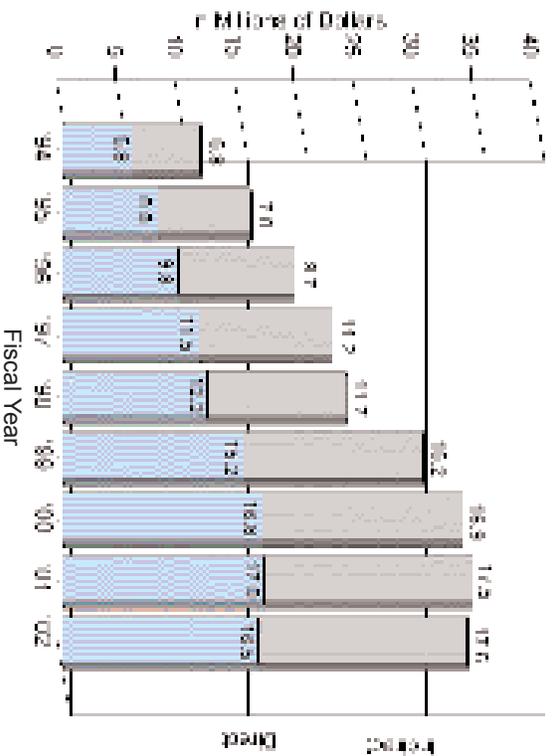
INMATE WAGE CONTRIBUTIONS



Contributions/deductions from inmate wages include taxes, cost of incarceration, victim's compensation, restitution, and other financial obligations, including family support.



ACI CONTRIBUTIONS TO THE ARIZONA ECONOMY



Direct contributions represent expenditures for goods and services, and staff compensation. Indirect contributions represent demand for goods and services created by ACI operations and enterprises.

ORGANIZATIONAL OVERVIEW

Arizona Correctional Industries reports to the Director of the Department of Corrections through the Deputy Director of Prison Operations. This structure ensures that ACI activities complement those of Prison Operations and allows for maximum coordination between ACI and the prisons. In addition, ACI's strategic plans are developed in alignment with Prison Operations' goals, to contribute to their achievement.

ACI BOARD OF DIRECTORS

ACI's business and financial operations are reviewed periodically by the ACI Board of Directors. The Board is composed of the following members:

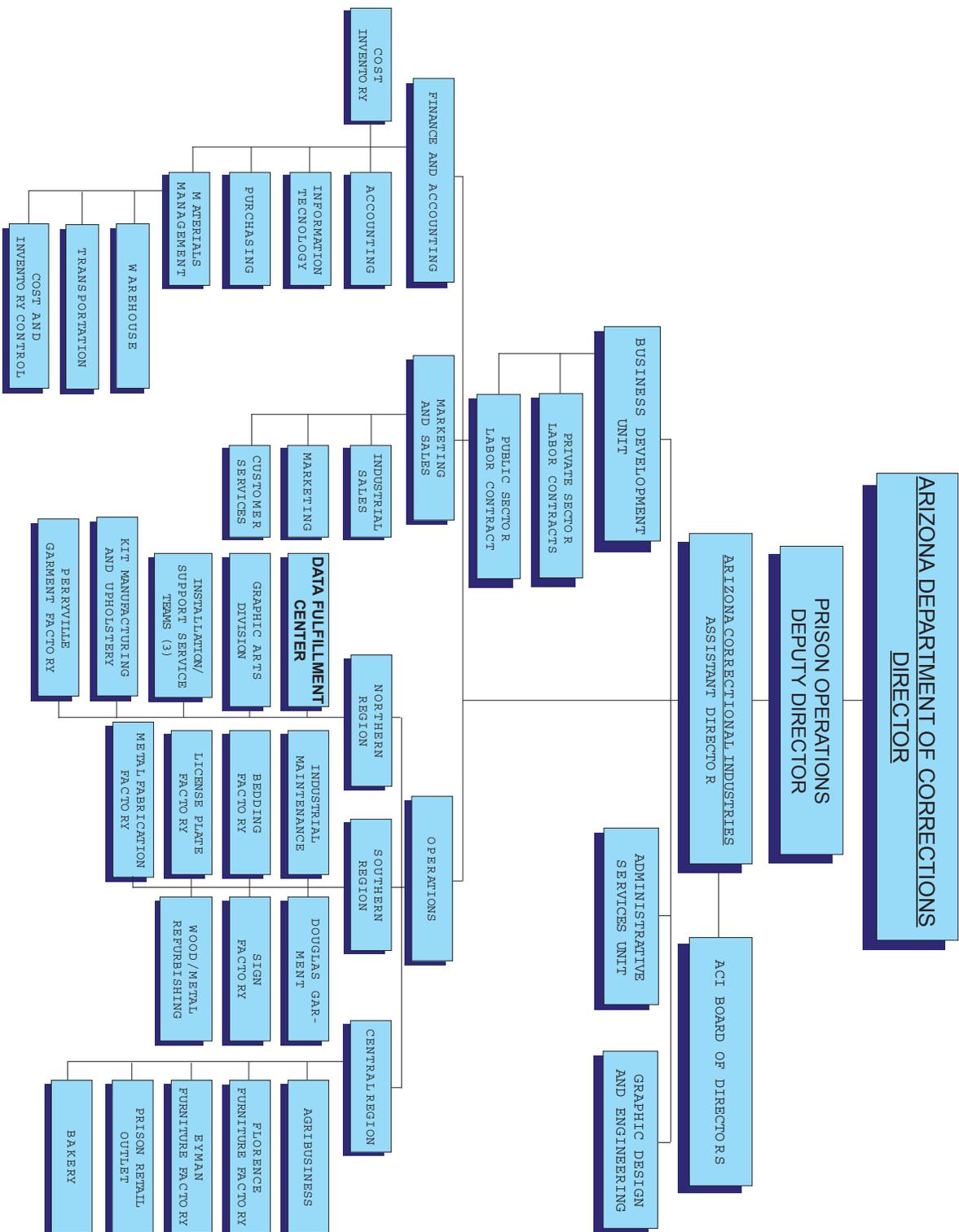
Board Chairman:	<i>Terry L. Stewart</i> , Director, Arizona Department of Corrections
Board Members:	<i>Charles L. Ryan</i> , Deputy Director, ADC Prison Operations <i>Richard G. Carlson</i> , Deputy Director, ADC Administration <i>Michael J. Smarik</i> , Assistant Director, ADC Administrative Services Division <i>Frank Nageotte</i> , Retired President, Greyhound/Dial Corporation

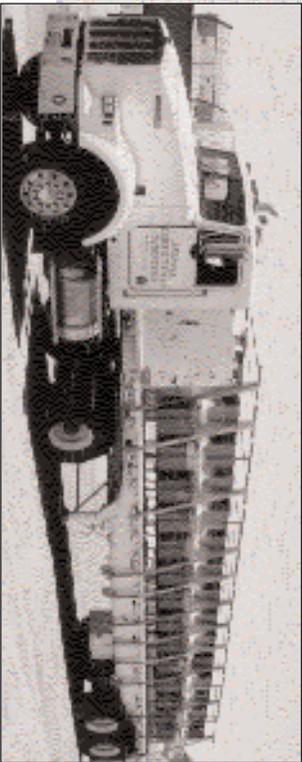
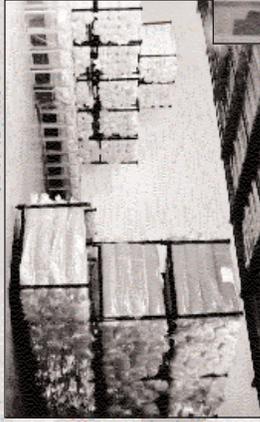
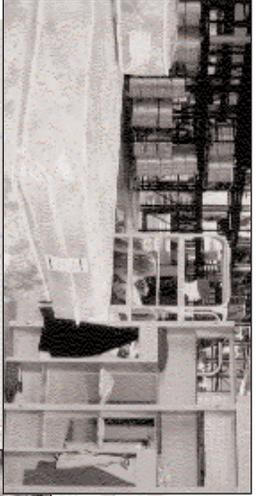
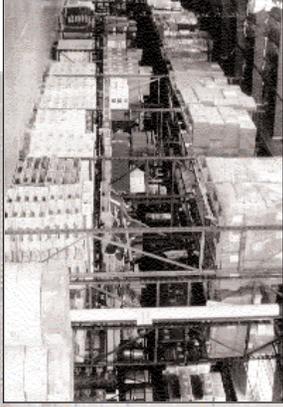
ACI FUNCTIONAL ORGANIZATIONAL STRUCTURE

Structured along the lines of a traditional private enterprise, ACI industries and related activities are directed through three administrative units and three operational bureaus:

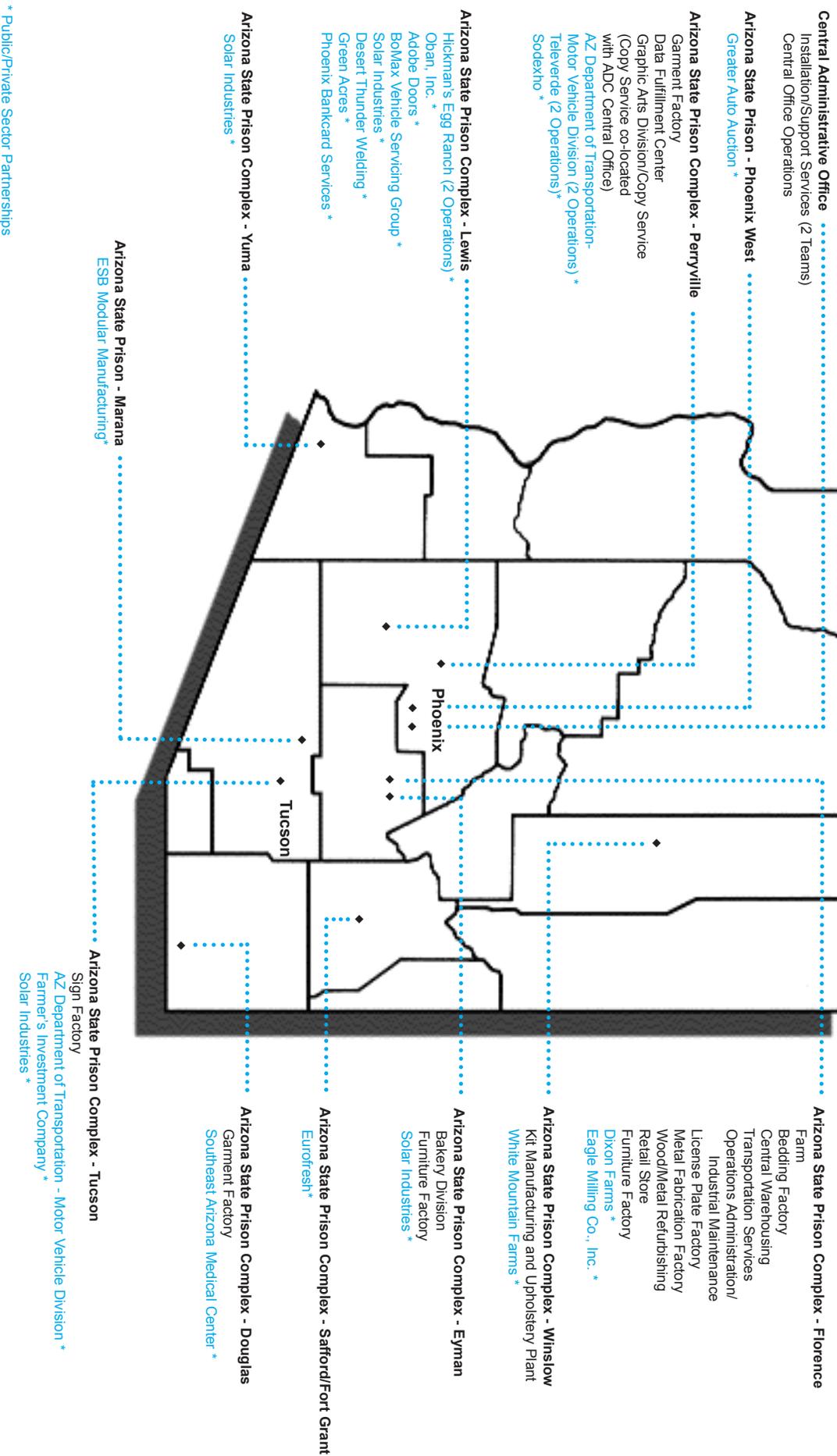
- **Administrative Services:** Provides support for all administrative functions, such as planning, personnel, legal affairs, and public information.
- **Business Development:** Responsible for development of Public and Private Sector Partnerships and compliance with the resulting inmate labor contracts.
- **Graphic Design and Engineering:** Provides state-of-the-art conceptual drawings and detailed manufacturing illustrations.
- **Finance and Accounting:** Responsible for all financial and accounting functions.
- **Marketing and Sales:** Responsible for all business activities associated with marketing and sales of ACI products and services.
- **Operations:** Responsible for all owned -and -operated manufacturing, production, and service facilities and activities.

FUNCTIONAL ORGANIZATIONAL STRUCTURE





MAP OF ACI OPERATIONS



* Public/Private Sector Partnerships

MAJOR ACCOMPLISHMENTS - FISCAL YEAR 2002

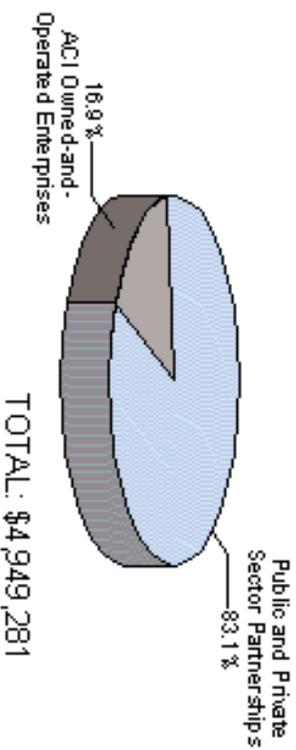
ACI is proud to report the following major accomplishments for Fiscal Year 2002:

FINANCIAL AND OPERATIONAL ACCOMPLISHMENTS

- Generated total revenues of \$17,419,754 from goods and services.
- Realized a net income of \$414,836.
- Maintained debt-free operations.
- Provided daily work opportunities for an average of 1,523 inmates in ACI work programs.
- Paid more than \$4.9 million in inmate wages.
- Provided for the following deductions from inmate wages:
 - Returned to the State General Fund a total of \$1,019,836 in room and board.
 - Contributed \$133,783 to the Victim's Compensation Fund.
 - Distributed \$97,066 to the Alcohol Abuse and Treatment Fund.
 - Supervised distribution of federal, state, and FICA taxes of \$190,458.
- Contributed \$1 million to the State General Fund for the fourth year in a row and contributed \$1 million to the Corrections Fund.

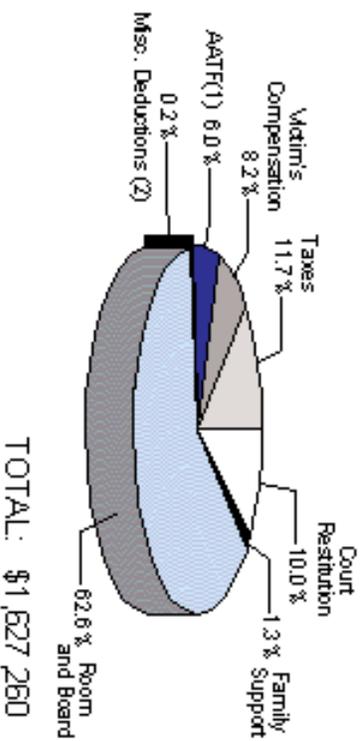
SOURCE OF INMATE WAGES

FOR FY 2002



DISTRIBUTION OF INMATE WAGES

FOR FY 2002



(1) Alcohol Abuse and Treatment Fund

(2) Includes such deductions as disciplinary and compassionate restitution and filing fees

MAJOR ACCOMPLISHMENTS—Continued

NEW PUBLIC AND PRIVATE SECTOR PARTNERSHIPS

- ASPC - Lewis
 - Phoenix Bankcard Services
 - Desert Thunder Welding
 - HTH, Inc. *
 - Swift Transportation Company*
 - Safety Services Co. *
 - Alleco Stone*
- ASPC - Perryville
 - Televerde (opened second operation)
 - Swift Transportation Company*
- ASPC - Winslow
 - Eurofresh*
- ASP - Marana
 - ESB Modular Manufacturing
- ASP - Phoenix West
 - Swift Transportation Company*
 - Pratte Development Company*

*Under development

ECONOMIC IMPACT*

In addition to the financial accomplishments noted, ACI created the following economic impact for Fiscal Year 2002, without any appropriated funding:

ACI operations contributed directly and indirectly to the economy of the State of Arizona through expenditures for materials, supplies, and outside services totaling nearly \$12.8 million.

Staff salaries amounted to nearly \$3.7 million for the year, creating more than \$2.9 million in demand for goods and services.

ACI expenditures resulted in further indirect economic impact, including the creation of 336 new jobs and a corresponding demand for approximately \$14.7 million for additional goods and services.

* Source - Arizona State University Center for Business Research

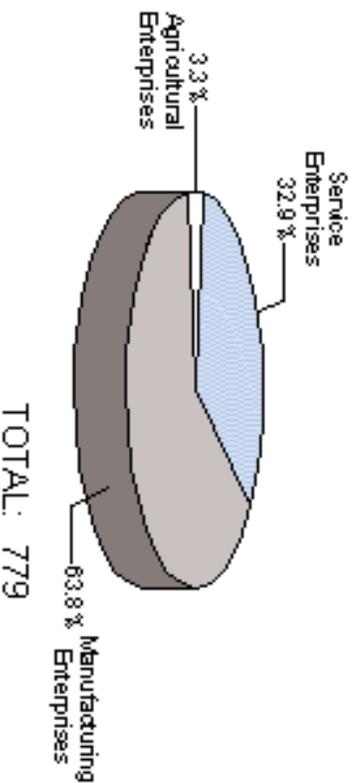
Inmate Hours Worked Fiscal Year 2002	
ACI Owned-and-Operated Partnerships	1,248,528
Total:	<u>2,346,417</u>

FOCUS: ACI Owned-and-Operated Prison Industry Enterprises

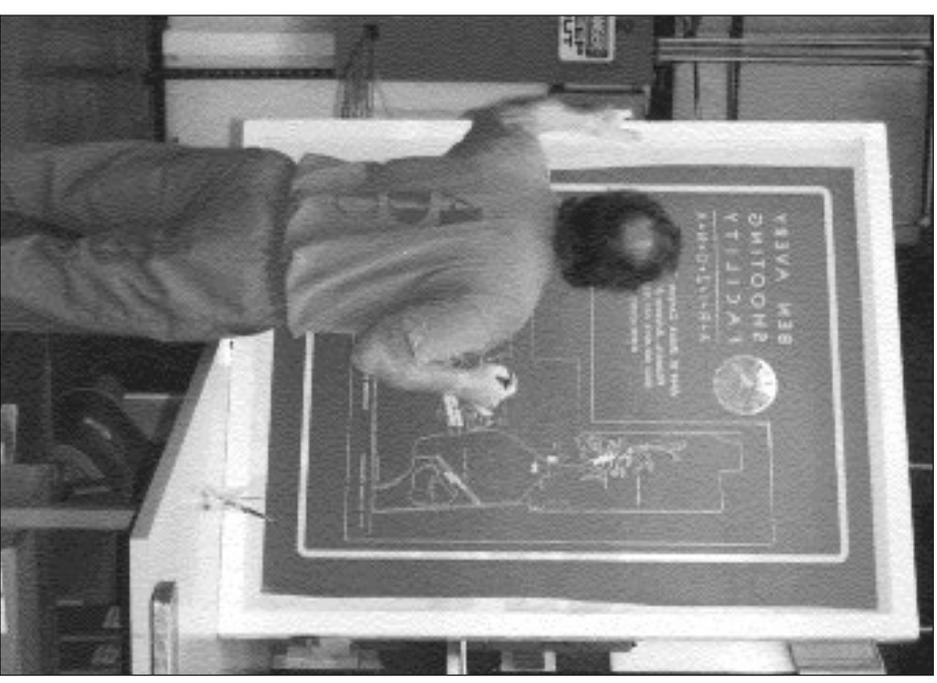
ACI Owned-and-Operated Prison Industry Enterprises and related business activities lie at the heart of ACI operations. With 21 industries and business activities located in six prison complexes statewide, ACI work programs provided meaningful employment to over 700 inmates during Fiscal Year 2002, representing slightly more than half of the total 1,523 inmates employed by ACI for the fiscal year. ACI owned-and-operated prison industry enterprises offer inmates a range of opportunities that serve as a First Step, a Stepping Stone, and a Cornerstone of success upon release, through the progressive acquisition of marketable job skills, desirable work habits, and self-esteem.

TOTAL INMATES EMPLOYED

IN ACI OWNED-AND-OPERATED INDUSTRIES
(Monthly Average)



ACI employment opportunities include ACI Owned-and-Operated Prison Industry Enterprises and ACI Public and Private Sector Partnerships. An additional 744 inmates were assigned to Partnership positions during Fiscal Year 2002.



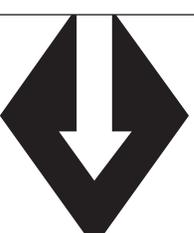
FIRST STEP

A CI entry-level trainee and semi-skilled positions provide inmates with an introduction to the basics of marketable employment skills. While engaged in these positions, inmates are also exposed to behaviors that teach and strengthen proper work ethic and good work habits. In addition, these initial work opportunities familiarize inmates with appropriate workplace interactions and team work. For some inmates, this is a new experience. For many others, it is also their first opportunity to develop self-esteem through work-related activities and to take pride in their accomplishments.

- ◆ This vital “First Step” provides inmates with the experience necessary to acquire basic work skills and good work habits and to develop the confidence essential to achieving future success in the work place.



- | |
|------------------------|
| Cabinet Maker's Helper |
| Painter |
| Gardener I |
| Electrician's Helper |
| Hand Packager |
| Welder's Helper |
| Punch Press Operator |
| Mechanic's Helper |
| Sander |
| Prep Assembler I |
| Carpenter's Helper |
| Hand Trimmer/Presser |
| Hemmer |
| Grinder |

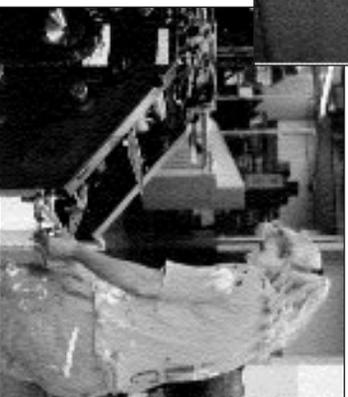


“I’ve been employed at ACI for 11 years I started at the ACI Print Shop . . . where I learned the printing business I learned to estimate the paper and ink needed to complete the order, the operating of the web printing press, the operating of the sheet feed printing press, the operating of the cutter, and the collater. Inmate Worker

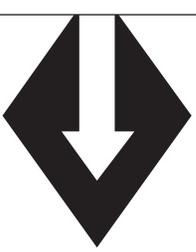
STEPPING STONE

There is significant room within ACI operations for inmates to advance once they have achieved the necessary fundamental skills and demonstrated desirable work habits. Inmates are eligible to promote to skilled positions within the same industry or, in some cases, to apply for a job in a different ACI industry. Because ACI has enterprises throughout the Department of Corrections, inmates transferred to another prison typically have access to ACI operations at that location, creating continuity in the level of the inmate's work experience. The most accomplished inmates may be selected to work in one of the many ACI public and private sector partnership work programs. Because these programs most closely reflect the work environment in the free world and also offer the highest wages available to inmates, they represent the premier job assignments offered within the Department of Corrections.

◆ These "Stepping Stones" of success within ACI industries lead to increasingly marketable and rewarding work experience during incarceration, while simultaneously encouraging improved work habits and fostering self-esteem.



- Cabinet Maker
- Carpenter
- Engraver
- Silk Screener
- Darkroom Operator
- Fabric Cutter
- Heating/AC Mechanic
- Web Press Operator
- Drafter
- Finish Painter
- Electrician
- Vehicle Mechanic
- Plumber
- Saw Operator



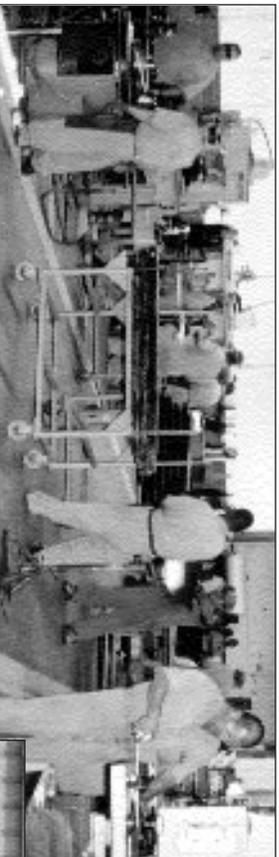
“While at the ACI upholstery shop. . . I’ve learned the upholstery business from the planning of an upholstery job to the finish of the order, which includes the estimating of the materials needed to complete the order, the making of the patterns, and the sewing.”

Inmate Worker

CORNERSTONE

The Arizona Department of Corrections depicts the model for promoting change in criminal behavior as a four-legged stool, with the legs representing education, substance abuse services, spirituality, and work. As a key element in this model, ACI work programs offer inmates quality work experience, exposure to good work habits, and familiarity with work environments similar to those found in the free world. ACI strives to give inmates the tools to create opportunities for employment and avenues for success that may not have been available to them prior to their incarceration.

- ◆ With this foundation, ACI work programs provide inmates with a “Cornerstone” upon which they can build a successful future upon release.



“Since I’ve been incarcerated, I decided to turn my life around and get some skills I can take with me back to society to help me take care of my family and become a productive member of society. . . . With the work knowledge I have. . . I can’t wait to start my own business and regain my place in society.”

Inmate Worker

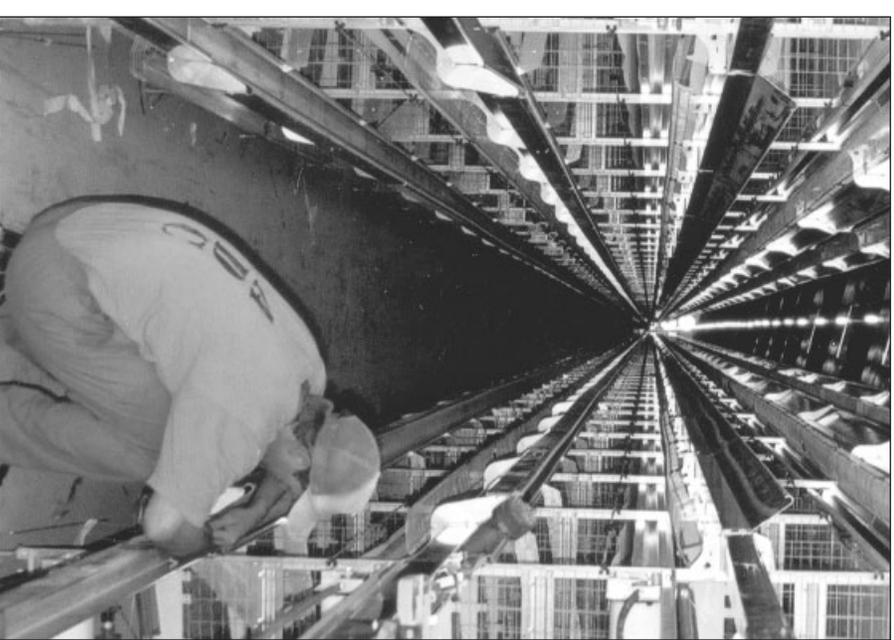
PUBLIC AND PRIVATE SECTOR PARTNERSHIPS

In addition to providing jobs for inmates through owned-and-operated prison industry enterprises, ACl creates jobs by entering into Partnerships to supply inmate labor. There are two types of Partnerships:

- ◆ **Public Sector**—These Partnerships provide inmate labor for other State agencies, allowing them to offer greater services without significant increases in taxpayer support.
- ◆ **Private Sector**—These Partnerships provide inmate labor for private sector companies with hard-to-fill labor requirements. Prison Industry Enhancement (PIE) Certification Programs are a subcategory of Private Sector Partnerships that require adherence to additional guidelines.

These mutually beneficial Partnerships result in some of the most promising and sought-after inmate work opportunities within the Arizona Department of Corrections.

- ◆ Inmates learn skills that are currently in demand, while also learning responsibility by contributing a portion of their wages to their cost of incarceration, victim's compensation, family support, and other financial obligations.
- ◆ Institutional administrators benefit from the motivation these jobs create for inmates to consistently adhere to the highest standards of behavior and attitude in order to be considered for and maintain these positions.
- ◆ Contract Partners gain a dependable, reliable work force, allowing them to focus on other aspects of their business.

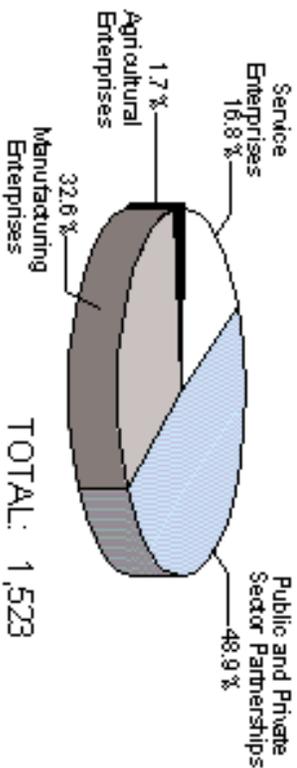


- ◆ The State of Arizona realizes ongoing economic benefit from these Partnerships, though direct economic contributions, as well as through increased efficiency and effectiveness of State agencies that use inmate labor.

STATISTICAL PROFILE - FISCAL YEAR 2002

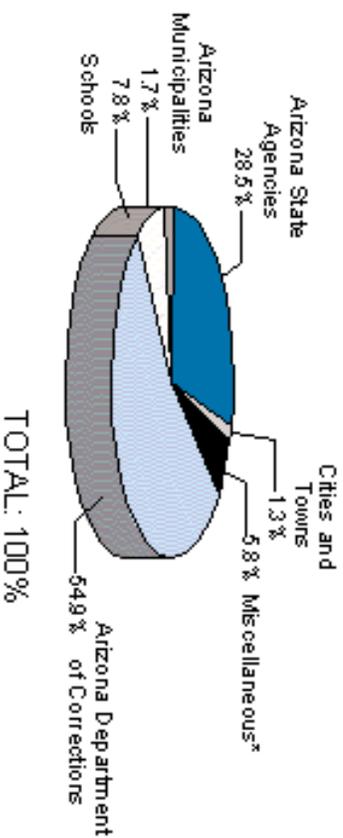
TOTAL INMATES EMPLOYED

IN ALL OPERATIONS
(Monthly Average)



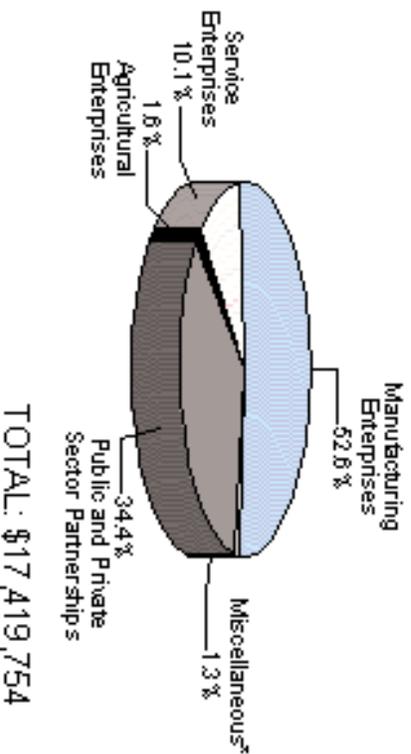
MARKET PROFILE

BY CUSTOMER
FOR FY 2002



REVENUES

FOR ALL OPERATIONS



*Includes such sources as interest income

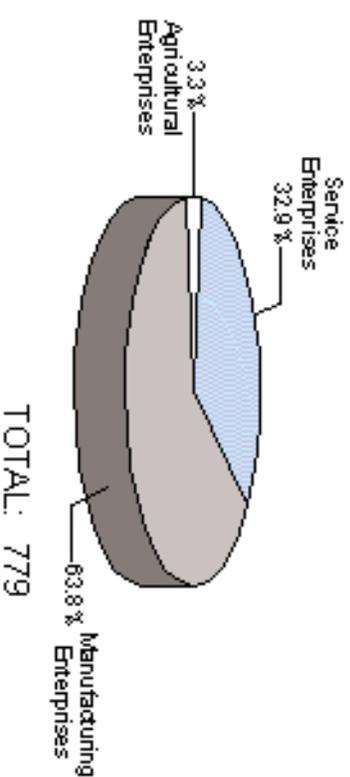
* Includes nonprofit and charitable organizations



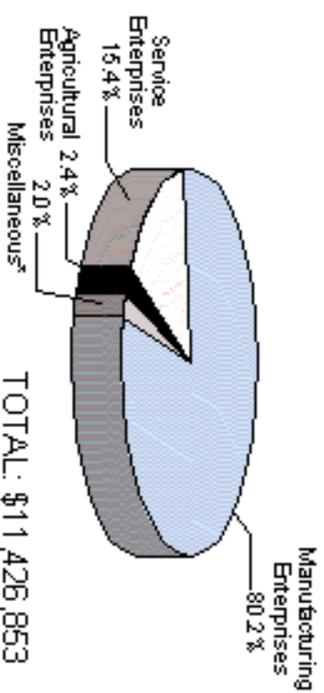
ACI OWNED-AND-OPERATED PRISON INDUSTRY ENTERPRISES



TOTAL INMATES EMPLOYED
IN ACI OWNED-AND-OPERATED INDUSTRIES
(Monthly Average)



REVENUES
FOR ACI OWNED-AND-OPERATED INDUSTRIES

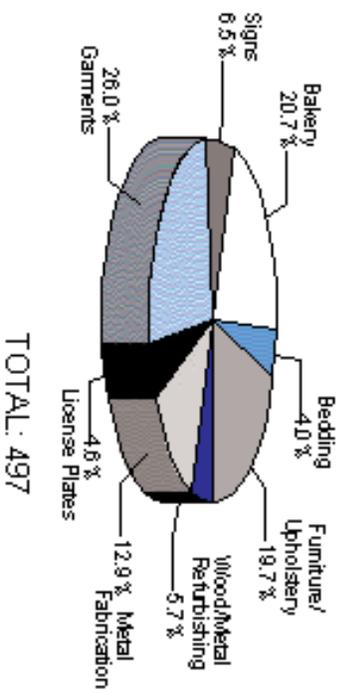


MANUFACTURING ENTERPRISES

INMATES EMPLOYED

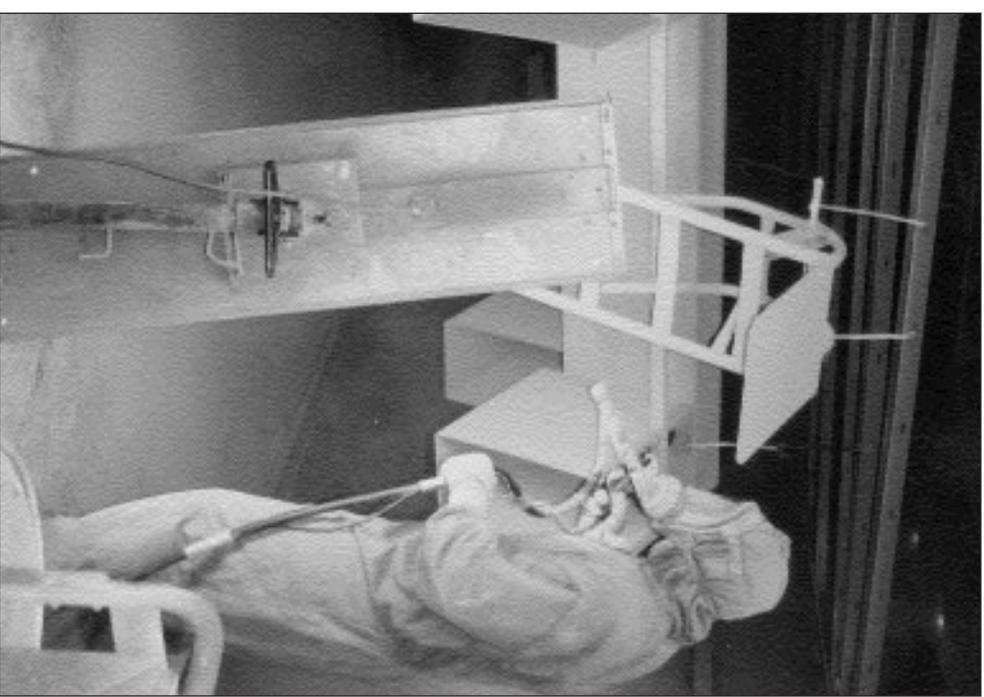
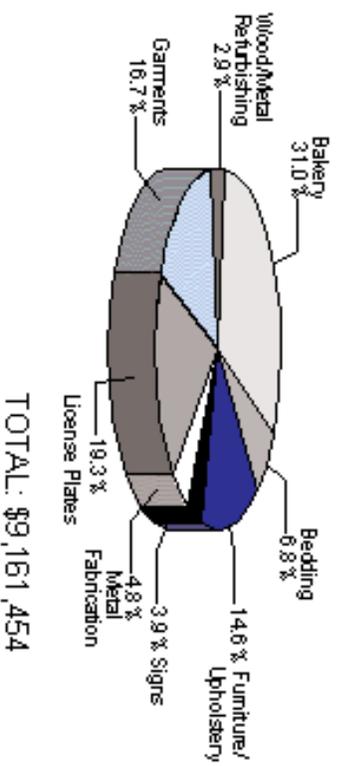
BY ACI MANUFACTURING ENTERPRISE TYPE

(Monthly Average)



SALES

BY ACI MANUFACTURING ENTERPRISE TYPE



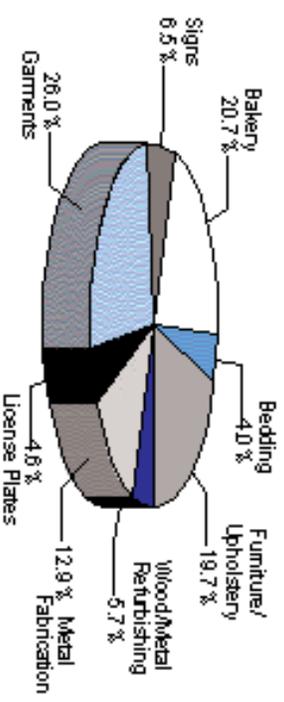
SERVICE ENTERPRISES



INMATES EMPLOYED

BY ACI MANUFACTURING ENTERPRISE TYPE

(Monthly Average)

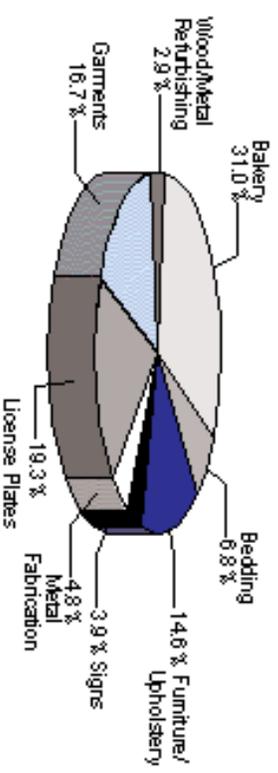


TOTAL: 497

* Includes clerical and administrative jobs for areas that do not generate revenue in ACI's Central Office, regional operations centers, and maintenance

SALES

BY ACI MANUFACTURING ENTERPRISE TYPE



TOTAL: \$9,161,454

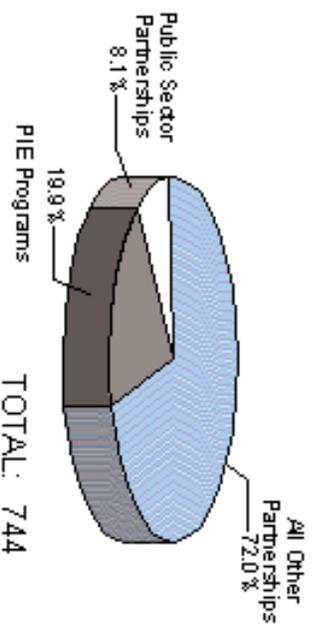
Transportation/Warehouse and Other Labor Services have been omitted because they are support functions not involving sales.

PUBLIC AND PRIVATE SECTOR PARTNERSHIPS

INMATES EMPLOYED

IN PUBLIC/PRIVATE SECTOR PARTNERSHIPS ONLY

(Monthly Average)



During FY 2002, there were 26 Partnership work programs located in 11 prisons throughout the state.



A LETTER OF APPRECIATION TO ACI

Throughout this report, we have described the professional, social, and financial impact of ACI work programs. We have also emphasized the long and short-term benefits realized from ACI employment, not only for inmate workers, but for the Department of Corrections and the State of Arizona, as well. The following letter, which was sent to ACI by an inmate about to be released, validates our comments and convictions about the positive influence that ACI work programs have on inmates' lives in the present and in the future.

To: Arizona Correctional Industries
From: Inmate Talbot
Date: 23 August 2002
Subject: Appreciation Letter

I would like to extend my appreciation and gratitude to the staff and administration for employment and training during my incarceration at the Department of Corrections. Arizona Correctional Industries keeps focused on their mission to provide inmates with training and experience as a positive aspect to an unfortunate circumstance. Despite our backgrounds or education ACI provides valuable experience which will help us greatly to re-enter society when our sentence is completed.

I would like to extend my appreciation to Vicki Fitzpatrick, Purchasing Manager for the time and patience she displayed during my training in the purchasing department. I feel very confident that I can proceed with employment and do well as a result of her dedication. The purchasing department in any company is key to their success and I feel I learned from the best. The experience I received could not have been achieved anywhere else in the system and I will always be grateful.

During my incarceration, I was employed at Televerde and Sodexo, outside ACI contracts which has been a very valuable experience. In addition to the experience achieved by participating in the outside contracted jobs, I was able to earn almost \$13,000 that will be released to me upon my release. The experience and financial stability would not have been possible if it were not for ACI and a dedicated management team.

Again, a big **Thank You** to everyone who participated in providing these opportunities for me and continues to do so for the inmates behind me.

Sincerely,



Connie Talbot

**FISCAL YEAR 2002
FINANCIAL STATEMENT**

**ARIZONA CORRECTIONAL INDUSTRIES
UNAUDITED FINANCIAL STATEMENT
JUNE 30, 2002 AND 2001**

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Balance Sheet - Enterprise Fund
June 30, 2002 and 2001

Assets

	<u>2002</u>	<u>2001</u>
Current Assets:		
Cash in bank and on hand	\$49,576	\$20,650
Cash on deposit with State Treasurer	4,741,327	6,986,476
Accounts Receivable	2,260,051	2,676,310
Interest Receivable	28,661	44,605
Inventories	2,631,839	2,205,250
Prepaid expenses	51,735	50,322
Total current assets	9,763,189	11,983,613
Property, plant and equipment, net	3,039,807	3,380,641
Total assets	<u>\$12,802,996</u>	<u>\$15,364,254</u>

Liabilities and Fund Equity

Current liabilities:		
Accounts payable	\$170,193	\$1,075,173
Accrued payroll and employee benefits	126,305	69,468
Accrued compensated absences	231,663	209,861
Other accrued liabilities	267,498	425,706
Total current liabilities	795,659	1,780,208
Total liabilities	795,659	1,780,208
Net Assets		
Invested in capital assets, net of related debt	12,007,337	13,584,046
Total net assets	12,007,337	13,584,046
Total liabilities and net assets	<u>\$12,802,996</u>	<u>\$15,364,254</u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Operating income	\$192,528	\$761,063
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	720,012	735,716
Changes in assets and liabilities:		
Accounts receivable	425,456	(97,955)
Inventories	(426,589)	343,013
Prepaid expenses	(1,413)	(32,547)
Accounts payable	(904,980)	(457,621)
Accrued payroll and employee benefits	56,831	8,375
Accrued compensated balances	21,802	27,746
Other accrued liabilities	(158,208)	363,898
Net cash provided by (used for) operating activities	(74,561)	1,651,688
Cash flows from noncapital financing activities:		
Cash paid to other funds	(2,000,000)	(1,000,000)
Proceeds from sale of scrap and other miscellaneous items	1,951	26,463
Net cash provided by (used for) noncapital financing activities	(1,998,049)	(973,537)
Cash flows from capital and related financing activities:		
Acquisition and construction of property, plant and equipment	(379,178)	(698,235)
Loss on disposal of fixed assets	(5,144)	0
Net cash used for capital and related financing activities	(384,322)	(698,235)
Cash flows from investing activities:		
Interest receipts on investments	240,709	410,257
Net cash provided by investing activities	240,709	410,257
Net increase (decrease) in cash	(2,216,223)	390,173
Cash, July 1	7,007,126	6,616,953
Cash, June 30	\$4,790,903	\$7,007,126
Cash, June 30, consists of :		
Cash in bank and on hand	522,559	20,650
Cash on deposit with State Treasurer	4,268,344	6,986,476
Total	\$4,790,903	\$7,007,126